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Macroeconomic policy questions: external debt crisis and development

Draft resolution submitted by the Vice-Chairman of the Committee, Peter Le Roux (South Africa), on the basis of informal consultations held on draft resolution A/C.2/62/L.2

External debt and development: towards a durable solution to the debt problems of developing countries

The General Assembly,

Recalling its resolutions 58/203 of 23 December 2003, 59/223 of 22 December 2004, 60/187 of 22 December 2005 and 61/188 of 20 December 2006 on external debt crisis and development,

Recalling also the International Conference on Financing for Development and its outcome,[1] which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

Recalling further the United Nations Millennium Declaration adopted on 8 September 2000,[2]

Recalling the 2005 World Summit Outcome,[3]

Recalling also its resolution 60/265 of 30 June 2006 on follow-up to the development outcome of the 2005 World Summit, including the Millennium Development Goals and other internationally agreed development goals,

Recalling further its resolution 57/270 B of 23 June 2003,

Reaffirming that each country must take primary responsibility for its own development and that the role of national policies and development strategies,

[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[2] See resolution 55/2.

[3] See resolution 60/1.

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including in the area of debt management, cannot be overemphasized in the achievement of sustainable development, and recognizing that national efforts should be complemented by supportive global programmes, measures and policies aimed at expanding the development opportunities of developing countries, while taking into account national conditions and ensuring respect for national ownership, strategies and sovereignty,

Emphasizing that debt sustainability is essential for underpinning growth, and underlining the importance of debt sustainability and effective debt management to the efforts to achieve national development goals, including the Millennium Development Goals, and that countries should direct those financial resources freed through debt relief, in particular through debt reduction and cancellation, towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

Noting with appreciation that the Multilateral Debt Relief Initiative and bilateral donors have provided significant debt relief to 22 heavily indebted poor countries that have reached the completion point under the enhanced Heavily Indebted Poor Countries Initiative,[4]

Noting with satisfaction the improvement in the external debt situation of heavily indebted poor countries but concerned that there remains a number of low- and middle-income developing countries that are still facing difficulties in finding a durable solution to their external debt problems, which could adversely affect their sustainable development,

Welcoming the fact that the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative have enabled heavily indebted poor countries to increase their expenditures on health, education and other social services consistent with national priorities, development plans and internationally agreed development goals, including the Millennium Development Goals,

Stressing the importance of addressing the challenges of those heavily indebted poor countries that are facing difficulties in reaching the completion point under the Heavily Indebted Poor Countries Initiative, and expressing concern that some heavily indebted poor countries continue to face substantial debt burdens and need to avoid rebuilding unsustainable debt burdens after reaching the completion point under the Initiative,

Convinced that enhanced market access for goods and services of export interest to developing countries contributes significantly to debt sustainability in those countries,

1. *Takes note* of the report of the Secretary-General;[5]

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[4] Debt relief under the two initiatives is expected to reduce the debt stocks of the 29 heavily indebted poor countries that have reached the decision point by almost 90 per cent. "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — Status of Implementation", prepared by the staffs of the International Development Association and the International Monetary Fund (August 2006).

[5] A/62/151.

2. *Emphasizes* the special importance of a timely, effective, comprehensive and durable solution to the debt problems of developing countries, since debt financing and relief can contribute to economic growth and development;

3. *Also emphasizes* that creditors and debtors must share responsibility for preventing unsustainable debt situations;

4. *Reiterates* that debt sustainability depends on a confluence of many factors at the international and national levels, emphasizes that country-specific circumstances and the impact of external shocks should continue to be taken into account in debt sustainability analyses, underscores the fact that no single indicator should be used to make definitive judgements about debt sustainability, and, in this regard, while acknowledging the need to use transparent and comparable indicators, invites the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to take into account fundamental changes caused by, inter alia, natural disasters, conflicts and changes in global growth prospects or in the terms of trade, especially for commodity-dependent developing countries, as well as by the impact of developments in financial markets, and to continue to provide information on this issue using existing cooperation forums, including those involving Member States;

5. *Underlines* the fact that the long-term sustainability of debt depends, inter alia, on the economic growth, mobilization of domestic resources and export prospects of debtor countries and, hence, on the creation of an enabling international environment conducive to development, progress in following sound macroeconomic policies, transparent and effective regulatory frameworks and success in overcoming structural development problems;

6. *Notes with appreciation* the progress under the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative, calls for their full and timely implementation and the provision of additional resources to ensure that the financial capacity of the international financial institutions is not reduced, and stresses the need for all creditors, including non-Paris Club and commercial creditors, to participate on an equitable basis;

7. *Emphasizes* in this regard that debt relief does not replace other sources of financing;

8. *Urges* donors to ensure that their commitments to the Multilateral Debt Relief Initiative and the Heavily Indebted Poor Countries Initiative be additional to existing aid flows, underlines that full compensation by donors on the basis of fair burden-sharing for the Multilateral Debt Relief Initiative costs of relevant financial institutions is essential, calls for continued support to countries to complete the Heavily Indebted Poor Countries Initiative process, and encourages all parties, both creditors and debtors, to fulfil their commitments as rapidly as possible in order to complete the debt relief process;

9. *Notes with concern* that, in spite of the progress achieved, some countries that have reached the completion point of the Heavily Indebted Poor Countries Initiative have not been able to achieve lasting debt sustainability, stresses the importance of promoting responsible borrowing and lending and the need to help those countries to manage their borrowing and to avoid a build-up of unsustainable debt, including through capacity-building in the area of debt management and the use of grants and concessional loans, underscores the important role of the joint

Debt Sustainability Framework of the International Monetary Fund and the World Bank for low-income countries in guiding borrowing and lending decisions, and encourages continued review of the Framework, with the full engagement of borrower Governments in an open and transparent manner;

10. *Encourages* further improving the mutual exchange of information, on a voluntary basis, on borrowing and lending among all creditors and borrowers;

11. *Reiterates its invitation* to the World Bank and the International Monetary Fund to keep the overall implications of the Debt Sustainability Framework for low-income countries under review, calls for transparency in the computation of the country policy and institutional assessments, and takes note of the disclosure of the country performance ratings of the International Development Association that form part of the Framework;

12. *Welcomes and encourages* the efforts of the heavily indebted poor countries, calls upon them to continue to strengthen their domestic policies and economic management, inter alia through poverty reduction strategies, and to create a domestic environment conducive to private-sector development, economic growth and poverty reduction, including a stable macroeconomic framework, transparent and accountable systems of public finance, a sound business climate and a predictable investment climate, and in this regard invites creditors, both private and public, that are not yet fully participating in debt relief initiatives, to substantially increase their participation, including by providing comparable treatment to the extent possible to debtor countries that have concluded sustainable debt relief agreements with creditors, and invites the international financing institutions and the donor community to continue to provide adequate and sufficiently concessional financing;

13. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication, sustained economic growth, sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals, and in this regard urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards those objectives;

14. *Calls for* the consideration of additional measures and initiatives aimed at ensuring long-term debt sustainability through increased grant-based financing, cancellation of 100 per cent of the eligible official multilateral and bilateral debt of heavily indebted poor countries and, where appropriate, and on a case-by-case basis, significant debt relief or restructuring for low- and middle-income developing countries with an unsustainable debt burden that are not part of the Heavily Indebted Poor Countries Initiative, as well as the exploration of mechanisms to comprehensively address the debt problems of those countries;

15. *Encourages* the Paris Club, in dealing with the debt of low- and middle-income debtor countries that are not part of the Heavily Indebted Poor Countries Initiative to take into account their medium-term debt sustainability in addition to their financing gaps, and takes note with appreciation of the Evian approach of the Paris Club in providing terms of debt relief tailored to the specific needs of debtor countries while preserving debt cancellation for heavily indebted poor countries;

16. *Stresses* the need to significantly address the debt problems of middle-income developing countries, and in this regard stresses the importance of the Evian approach of the Paris Club as a practical means to address this issue, and notes that the current debt sustainability framework used to analyse the debt situation of middle-income countries focuses mostly on medium-term debt dynamics;

17. *Notes* that several developing countries have been able to reduce their external public debt by issuing more domestic debt to pay off foreign currency liabilities, appreciates that while this switch in debt structure substantially reduces the foreign exchange risk of public debt liabilities, the levels of domestic debt could create other challenges for macroeconomic management and public debt sustainability, and calls for a reinforcing capacity to manage the new levels of domestic debt in order to maintain the overall public debt sustainability;

18. *Also notes* that some low- and middle-income developing countries that are not included in existing debt relief initiatives also experience constraints in mobilizing the resources needed to achieve the internationally agreed development goals;

19. *Invites* creditors and debtors to continue to use, where appropriate and on a case-by-case basis, mechanisms such as debt swaps for alleviating the debt burden of low- and middle-income developing countries with an unsustainable debt burden that are not eligible for the Heavily Indebted Poor Countries Initiative, and takes note of the discussions and assessment by the Paris Club of the proposal for "Debt for Equity in Millennium Development Goal Projects";

20. *Stresses* the need to continue to take effective measures, preferably within the existing frameworks, to address the debt problems of the least developed countries, including through cancellation of the multilateral and bilateral debt owed by least developed countries to creditors, both public and private;

21. *Invites* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium to long term, and recognizes the need for countries to be able to invest, inter alia, in health and education while maintaining debt sustainability;

22. *Notes* that credit rating agencies play an important role in determining countries' access to international capital markets and the cost of such borrowing, and, in this regard, calls upon the international financial and banking institutions to consider enhancing the transparency of risk rating mechanisms, and notes that sovereign risk assessments made by the private sector should maximize the use of strict, objective and transparent parameters, which can be facilitated by high-quality data and analysis;

23. *Welcomes* the efforts of, and calls upon the international community to provide flexibility, and stresses the need to continue those efforts in helping post-conflict developing countries, especially those that are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

24. *Also welcomes* the efforts of and invites creditors to provide flexibility to developing countries affected by natural disasters on a case-by-case basis so as to allow them to address their debt concerns;

25. *Further welcomes* the efforts of and calls upon the international community to support institutional capacity-building in developing countries for the management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies;

26. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and other relevant multilateral financial institutions and stakeholders, to continue cooperation in respect of capacity-building activities in developing countries in the area of debt management and debt sustainability;

27. *Invites* the international community, including the United Nations system, to continue efforts to increase financial support in respect of capacity-building activities for developing countries in the area of debt management and debt sustainability, and encourages countries to create transparent and accountable debt management systems;

28. *Calls upon* all Member States and the United Nations system, and invites the Bretton Woods institutions and the private sector, to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those related to the question of the external debt problems of developing countries;

29. *Requests* the Secretary-General to submit to the General Assembly at its sixty-third session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt situation and debt-servicing problems of developing countries and a review of debt management capacity-building efforts, particularly those of the United Nations system;

30. *Decides* to include in the provisional agenda of its sixty-third session, under the item entitled "Macroeconomic policy questions", a sub-item entitled "External debt and development: towards a durable solution to the debt problems of developing countries".